COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

BAY STATE GAS COMPANY	)	D.T.E. 02-______

PETITION FOR APPROVAL OF GAS SUPPLY AGREEMENT,
AGENCY AGREEMENT AND MANAGEMENT SERVICES AGREEMENT

Pursuant to G.L. c. 164, § 94A and 220 C.M.R. §1.04(1), Bay State Gas Company ("Bay State" or "Company"), requests that the Department of Telecommunications and Energy ("Department") approve a Gas Supply Agreement ("Supply Agreement"), between Bay State and EnCana Corporation ("EnCana"), an Agency Agreement ("Agency Agreement") between Bay State and Northeast Gas Markets, and a Management Services Agreement ("Management Services Agreement") between Bay State and Northeast Gas Markets. The Supply Agreement is attached as Exhibit FCD-1, the Agency Agreement is attached as Exhibit FCD-2, and the Management Services Agreement is attached as Exhibit FCD-3. The Supply Agreement covers a period in excess of one year and is therefore subject to the Department's jurisdiction under G.L. c 164, § 94A. In support of its request, Bay State states the following:

1. Bay State is a Massachusetts gas company, as defined in G.L. c. 164, § 1, and is subject to the Department's jurisdiction. Bay State's principal address is 300 Friberg Parkway, Westborough, Massachusetts 01581.

2. Boundary Gas Inc. ("BGI") is a FERC-regulated consortium of Northeast U.S. local distribution companies ("LDCs"), including Bay State, formed in 1980 to facilitate the procurement of incremental supplies of natural gas to meet market growth. BGI has an existing firm supply contract, a Canadian supply that expires January 15, 2003. BGI purchases and resells the gas to its Northeast customer group LDCs at the Niagara Falls import point. All aspects of BGI and the BGI gas supply contract, including operations, invoicing, etc. are managed by Northeast Gas Markets ("NEGM") a project development and contract management firm based in Beverly, Massachusetts.

3. In the Spring of 2001, BGI and its LDC customers organized a BGI Renewal Working Group to address the steps necessary for securing a competitive replacement gas supply once the original contract expired in January 2003.

4. On November 21, 2001, BGI issued a request for proposals ("RFP") seeking replacement supplies. The RFP identified a need of between 60,000 and 72,280 Decatherms per day ("Dth/d"), depending on BGI's LDC customers' final commitments and sought supplies for two periods: (1) January 16, 2003 through March 31, 2003, and (2) January 16, 2003 through March 31, 2005. The RFP specified that BGI customers, including Bay State, were not obligated to enter into the resulting replacement supply contract.

5. The RFP was issued to thirteen suppliers. BGI conducted an evaluation of the nine bids received. One bid was deemed incomplete and therefore was not considered as part of the evaluation. BGI's evaluation of the bids included a comparison of proposed price options, rating of the security of the supply offered, rating of the bid flexibility, and viability of prospective supplier. Because the gas market had changed substantially and the price of gas had declined significantly since the issuance of the RFP, BGI issued a supplemental Bid Refresher

document on January 11, 2002 ("Bid Refresher"). The Bid Refresher requested that bidders update their previous bids so that they more closely reflected pricing realities of current gas markets. The Bid Refresher was issued to the finalists chosen from the initial RFP. BGI analyzed the responses to the Bid Refresher and selected EnCana as the winning bidder. EnCana subsequently entered into Gas Supply Agreements with Bay State and the other LDC customers of BGI.

6. Bay State's new supply arrangement is governed by three separate agreements. The first agreement is the Gas Sales Agreement ("Sales Agreement") between Bay State and EnCana (FCD-1). Section 94A requires that a gas company either initially secure Department approval for such agreements, or include a provision in such agreements subjecting the agreement to subsequent Department review and determination in any proceeding brought under either G.L. c 164, §§ 93 or 94. The Agreement contains such a provision for subsequent Department review. The Sales Agreement includes an initial term commencing on January 15, 2003 and ending on February 1, 2003. The Primary Term of the Sales Agreement commences February 1, 2003 and ends April 1, 2005. During the Primary Term, Bay State's Scheduled Contract Quantity will be the quantity of Gas nominated by NEGM on behalf of Bay State, up to the Daily Contract Quantity ("DCQ") of 10,471 dth/day.

7. In addition, Bay State entered into an Agency Agreement (FCD-2) and Management Services Agreement with NEGM (FCD-3). The Agency Agreement provides that NEGM will act as administrative agent for all purposes under Bay State's Gas Sales Agreement. NEGM is authorized to submit nominations on behalf of the LDC customers, coordinate election by LDC customers to purchase quantities not being purchased by any other customer, receive invoices and make payments on behalf of LDC customers, and carry out all other necessary

actions related to the Sales Agreement. The term of the Agency Agreement is tied to the duration of the Sales Agreement, and any extension thereto. The Management Services Agreement governs NEGM's specific obligations pursuant to the Gas Supply and Agency Agreements and compensation therefor.

8. In evaluating a gas utility's resource options for the acquisition of commodity resources as well as for acquisition of capacity under G.L. c. 164, § 94A, the Department examines whether the acquisition of the resource is consistent with the public interest. Commonwealth Gas Company, D.P.U. 94-174-A at 27 (1996). In order to demonstrate that the proposed acquisition of a resource that provides a commodity or incremental resource is consistent with the public interest, a local distribution company must show that, at the time of the acquisition or contract renegotiation, the acquisition: (1) compares favorably to the range of alternative options reasonably available to the company and its customers, including releasing capacity to customers migrating to transportation, and (2) is consistent with the company's portfolio objectives. Id.

In establishing that a resource is consistent with the company's portfolio objectives, the company may refer to the portfolio objectives established in a recently approved forecast and supply plan, or in a recent review of a supply contract under G.L. c. 164, § 94A, or may describe its objectives in the filing accompanying the proposed resource acquisition. Id. In comparing the proposed resource acquisition to current market offerings, the Department examines the relevant price and non-price attributes of each contract to ensure that it contributes to the strength of the overall supply portfolio. Id. at 28.

9. The resource acquisition from BGI is consistent with the public interest. As set forth in the attached testimony of the Company's witness, Francisco C. DaFonte, this acquisition

provides price and non-price advantages compared to alternative resource options. The BGI resource acquisition also is consistent with the Company portfolio objectives established in the most recent forecast and supply plan approved by the Department in Bay State Gas Company, D.T.E. 98-86 (July 28, 2000) ("D.T.E. 98-86").

10. As is also shown in the testimony of Mr. Dafonte, the Gas Supply Agreement provides Bay State with reliability and flexibility advantages compared to alternative resource options. Finally, the Agreements are consistent with the Company portfolio objectives established in its most recent forecast filing, approved by the Department in D.T.E. 98-86. In that filing, the Company established that it evaluates its resource options on a total portfolio cost basis through the use of its SENDOUT© Model, and compares non-price factors, such as reliability and flexibility, in evaluating resource options. D.T.E. 98-86 at 22. Through the application of this process, Bay State identified the Gas Supply Agreement as a "best-cost" option.[1] See, FCD-16. In D.T.E. 98-86, the Department found that "Bay State has demonstrated that it has in place processes by which it develops resource planning strategies to maintain reliable, least-cost service to firm customers." Id. at 30.

11. The Gas Supply Agreement requires that regulatory approval be received on or before November 1, 2002. Accordingly, Bay State respectfully requests that the Department expedite its review of this filing, and issue an Order no later than November 1, 2002.

WHEREFORE, based on the foregoing, Bay State respectfully submits that the Gas Supply Agreement by and between Bay State and EnCana Corporation, the Agency and

[1] The Department found that Bay State's SENDOUT model allows the Company to identify a variety of capacity and commodity options under multiple planning contingencies and migration scenarios. D.T.E. 98-86 at 30.

Management Services Agreements between Bay State and Northeast Gas Markets are in the public interest, and should be approved by the Department.

Respectfully submitted,

BAY STATE GAS COMPANY

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